The Flight From the US Dollar

By Ted Snider
Theme: Global Economy
Global Research, May 11, 2023
Antiwar.com 8 May 2023

***

On March 20, Chinese President Xi Jinping met with Russian President Vladimir Putin in Moscow. In his article in the Russian media preceding the meeting, Xi enthused that "China-Russia trade exceeded 190 billion U.S. dollars last year, up by 116 percent from ten years ago." Though it has reached 190 billion US dollars, it is no longer all being traded in US dollars. In his article in the Chinese media, Putin said that "the share of settlements in national currencies" of all that trade "is growing." 65% of that massive China-Russia trade is now being conducting in their Russian and Chinese currencies.

Though the US sees Russia and China as the largest threats to its position in the world, it is not just America's enemies that are fleeing the dollar. Its closest friends have hinted at it too. Following his meetings with Xi in China, French President Emmanuel Macron likely stunned and angered the US by calling for Europe to reduce its dependency on the "extraterritoriality of the US dollar."

These calls for a flight from the US dollar are not merely economic, they are geopolitical. They are calls to reshape the world order by challenging US hegemony and advocating multipolarity. The monopoly of the dollar has not just assured US wealth: it has assured US power. Most international trade is conducted in dollars, and most foreign exchange reserves are held in dollars. That dollar dominance has often allowed the US to dictate ideological alignment or to impose economic and political structural adjustments on other countries. It has also allowed the US to become the only country in the world that can effectively sanction its opponents. Emancipation from the hegemony of the dollar is emancipation from US hegemony. The flight from the US dollar is a mechanism for replacing the US led unipolar world with a multipolar world.

As the US has recently demonstrated in Cuba, Venezuela, Afghanistan, Iran and Russia, the monopoly of the dollar allows it to be very powerfully and quickly weaponized. Countries' funds can be held hostage, and countries can be coerced and starved into falling in line by sanctions. Recent demonstrations of that power have awoken many countries to their own vulnerability.

US Treasury Secretary Janet Yellen recently said that "There is a risk when we use financial sanctions that are linked to the role of the dollar that over time it could undermine the hegemony of the dollar." She explained that "Of course, it does create a desire on the part of China, of Russia, of Iran to find an alternative."

And that's just what it's done. But Yellen is still missing the larger effect of US dollar warfare. It is not just China, Russia and Iran that are now seeking to escape the pressure. America's enemies, but also its friends and everything in between, are considering taking flight from the dollar.

China and Russia are doing it. NATO ally France is calling for it for Europe. Nonaligned countries are also either talking about it or already doing it.

India is a growing economic power. And, like China, India has massively increased its trade with Russia. India and Russia have now begun discussions on a free trade agreement between India and the Russian led Eurasian Economic Commission. The two countries are now engaged in "advanced negotiations" for a new bilateral investment treaty. Russia has expressed interest in using "national currencies and currencies of friendly countries" for trade. India, too, "has been keen on" moving toward leaving the dollar behind by "increasing the use of its rupee currency for trade with Russia." And India has recently begun purchasing some Russian oil in Russian rubles.

US dollar hegemony has also been threatened right in America's backyard. Brazilian President Luiz Inácio Lula da Silva has proposed escaping dollar control by "creat[ing] a Latin American currency." While in China for meetings with XI, Lula asked, "Who decided the dollar would be the [world's] currency?" He then answered his own question. In March, Brazil and China escaped the US dollar by each assigning one of its banks to conduct their bilateral trade in the Brazilian real and the Chinese yuan.

Pakistan is now also trading with China in its own currency. Iran and Russia have taken flight from the dollar and are now settling trade in rials and rubles. They recently announced that they have circumvented the US financial system by linking their banking systems as an alternative to SWIFT for trading with each other. Saudi Arabia has said that it sees "no issues" in trading oil in currencies other than the US dollar. Robert Rabil, Professor of political science at Florida Atlantic University, says that the United Arab Emirates, Egypt and Israel have all made some movement away from the US dollar.

The Eurasian Economic Union has agreed on "a phased transition" from settling trade in "foreign currency" to "settlements in rubles."

Perhaps more surprisingly for the US was the decision at the March 30-31 meeting of the finance ministers and central bank governors of the Association of Southeast Asian Nations (ASEAN) to reduce reliance on the US dollar. ASEAN is made up of Indonesia, Thailand, the Philippines, Singapore, Vietnam, Cambodia, Laos, Malaysia, Myanmar and Brunei. The meeting produced a joint statement to "reinforce financial resilience . . . through the use of local currency." But what must have been most unsettling for the US was the explanation given for the decision by Indonesian President Joko Widodo. Widodo said that the move is necessary to protect from "possible geopolitical repercussions." What did he mean by that? "Be very careful," he explained. "We must remember the sanctions imposed by the US on

Russia."

Yellen was right. Widodo said that US sanctions on Russia exposed just how vulnerable countries are if they rely on US dollars and US foreign payment systems. He said that using ASEAN's Local Currency Transaction system to trade in local currencies would help address the need for Indonesia to prepare itself for the possibility that the US could similarly sanction it.

The EEU and ASEAN are not the only organizations mapping their flight from the US dollar. BRICS is a massive international organization whose primary purpose is to balance US hegemony in a new multipolar world. Comprised of Brazil, Russia, India, China and South Africa, it represents 41% of the world's population. BRICS, too, is talking about conducting trade in the currencies of its members or even in a new BRICS' currency.

Lula recently suggested that "the BRICS bank have a currency to finance trade between Brazil and China, between Brazil and other BRICS countries" so that countries are not compelled "to chase after dollars to export, when they could be exporting in their own currencies." Russian State Duma Deputy Chairman Alexander Babakov also recently said that BRICS is working on creating its own currency.

A BRICS currency could challenge the dollar beyond the borders of BRICS. "Because each member of the BRICS grouping is an economic heavyweight in its own region, countries around the world would likely be willing to do business" in the currency, suggested a report in the *Financial Post*.

One such region is Africa. In July, the Russia-Africa summit will be held in St. Petersburg. Olayinka Ajala, senior lecturer in Politics and International Relations at Leeds Beckett University and the author of "The Case for Neutrality: Understanding African Stances on the Russia-Ukraine Conflict," told me in a recent correspondence that a "main focus of Russia and China at the moment is to get African countries to support the proposed BRICS currency." He says that "this will be a major topic in the upcoming conference." Ajala explains that "Africa is a consuming continent, meaning they import lots of goods and services." He says that "with a population of over 1.2 billion, if Russia and China are able to convince African countries on the need to ditch the dollar, it will be a huge blow to the US."

From Africa to Southeast Asia and Latin America, from Russia and China to India, Iran and Saudi Arabia, countries are mapping their course for a flight from the US dollar. As a mechanism for transition from US hegemony to a multipolar world, the economic effects would be great, but the geopolitical effects could be even greater.

*

Note to readers: Please click the share button above. Follow us on Instagram and Twitter and subscribe to our Telegram Channel. Feel free to repost and share widely Global Research articles.

Ted Snider is a regular columnist on US foreign policy and history at Antiwar.com and The Libertarian Institute. He is also a frequent contributor to Responsible Statecraft and The American Conservative as well as other outlets.

The original source of this article is Antiwar.com

Comment on Global Research Articles on our Facebook page

Become a Member of Global Research

Articles by: Ted Snider